



Spatial Economics Research Centre

Tuesday, 23 February 2016

Turnover is not supply

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An article published in the Economist this month linked transaction volumes in the British housing markets with housing supply. Given that newbuilds usually amount to less than fifth of all housing sales, the sale of used stock is a key determinant of housing supply. According to the article, this is often overlooked by economists emphasizing the need for increased construction to boost supply and slow price growth in the United Kingdom.

This argument contains a slight confusion about what constitutes housing supply. Economists usually think of the stock of occupied houses as providing housing services which are enjoyed through renting or homeownership. According to this perspective housing supply is not necessarily determined by turnover (frequency of house sales), at least as long as the vacancy rate is relatively constant over time. Hence, transaction volumes do not in and of themselves increase supply. To illustrate this point, suppose there is an increase in the number of households moving home. It is true that these households will increase the number of houses on sale, but they will also increase demand for housing units in the market by (exactly) the same amount. Overall, total housing demand and supply of units remain unchanged. So the emphasis on turnover as a tool to curb increasing prices is misplaced.

Admittedly, it is true that some forms of turnover (e.g. trade downs by older households) may foster a better match between the size of households and their homes. But it is unlikely that this would solve the broader problem of insufficient supply in the South East.

Telling evidence on the relationship between sale volumes and prices can be found when looking at the series for different regions within England (available at the Land Registry website). Transaction volumes are low in all regions by historical standards. However it is only in the South East that prices have recovered to pre-crisis levels, and continue to increase. And low turnover is not the explanation for it.

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